Corporate Governance Report

Last Update: October 20, 2017

Aozora Bank, Ltd.

Representative Director and President

Shinsuke Baba

Contact: Business Strategy Division 03-6752-1111

Securities Code: 8304

http://www.aozorabank.co.jp/english/

The corporate governance of Aozora Bank, Ltd. (the “Bank”) is described below.

I. Basic Policy on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Policy

The Bank defines its Group management philosophy as "being firmly established in the Japanese financial system and truly committed to contributing to the economic and social growth of Japan." All executive officers and employees of Aozora will contribute to the Bank's objective of earning a high reputation from society through the provision of differentiated and specialized financial services for its customers. The Bank also reaffirms its commitment to a strong risk management framework and the maintenance of management soundness, in order to properly respond to internal and external environmental changes. By implementing these measures, the Bank aims to create a management policy which leads to further enhancement of its corporate value in response to its shareholders' growth mandate, and strengthen its position as a truly trusted "Primary Secondary Bank: An *Even More* Reliable Partner."

<Management Policy>
1. Differentiated and Specialized Business Model
2. Social Responsibility as a Bank
3. Sustainable Enhancement in Corporate Value Responding to Mandate from Shareholders

The objective of the Bank's corporate governance policy is to ensure management discipline and create a framework for enhanced oversight, in order to conduct daily business operations based on the above management philosophy.

For this purpose, the Bank has established an efficient and highly transparent management framework, and continues to work towards a more transparent corporate governance structure in light of the codes indicated in the recent corporate governance reform.

Management adheres to the highest standards of compliance in all areas of business execution. The management team identifies risks and assesses the potential impact on the Bank’s business, maintaining a strict internal control system which ensures optimal transparency and a framework for effective management of risk-return balance. To further enhance efficiency and transparency through the separation of management and business execution, the Bank appoints a number of outside directors to the Board of Directors. Outside directors are independently-positioned directors who provide advice and suggestions based on their financial knowledge and experience, as well as their substantial expertise and insight into global executive management. In accordance with the standards set forth by the Tokyo Stock Exchange (TSE), all qualified outside directors are designated independent directors with the approval of the Board of Directors and registered with the TSE.

The Audit & Supervisory Board and its members monitor and verify the execution of director duties, mainly from a legal perspective. Board-level committees such as the Nomination & Remuneration Committee and the Audit & Compliance Committee mainly comprise outside directors, and are entrusted by the Board of Directors to perform supplementary supervision and oversight with respect to representative directors and executive officers.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The Bank makes continuous efforts to strengthen corporate governance and judges that it is compliant with all the principles of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code]

Principle 1.4 (Cross-Shareholdings)

It is the policy of the Bank to hold cross-shareholding stocks solely for the purpose of maintaining and enhancing its business relationships.

In cases where the Bank holds such stocks, the Investment Committee, a sub-committee of the Management Committee, makes a comprehensive judgment on the appropriateness of the investment based on the status, profitability, and development of each transaction. In addition, the Investment Committee regularly monitors transactions with cross-shareholders, and considers selling stocks deemed no longer beneficial to the Bank after careful thought to the impact on markets and other relevant matters. The Investment Committee also reports the results of the monitoring conducted including transaction policy to the Board of Directors on a regular basis.
In exercising voting rights for cross-held stocks, the Bank carefully assesses and makes a comprehensive judgment on resolutions which may potentially violate shareholders' rights.

Principle 1.7 (Related Party Transactions)

The Bank conducts timely disclosure of material facts related to transactions with its subsidiaries and major shareholders (related party transactions) and transactions involving conflicts of interest with directors, after confirming such transactions with directors and respective business divisions and making regular reports to the Board of Directors in accordance with the relevant laws and regulations. As a rule, the Bank obtains advance Board approval for transactions involving conflicts of interest with directors, in accordance with the Regulations of the Board of Directors.

Principle 3.1 (i) (Management Philosophy, Strategy, and Plan)

Please refer to "I.1. Basic Policy" of this report.
On May 15, 2015, the Bank published a news release entitled "Aozora Announces Early and Full Repayment of Public Funds; Establishes Updated Business Model and Mid-term Financial Targets ~Primary Secondary Bank: An *Even More* Reliable Partner~". Please refer to Bank's website below for more details.
http://www.aozorabank.co.jp/english/about/newsrelease/2015/pdf/15051506_n.pdf

Principle 3.1 (ii) (Basic Policy and Guidelines)

Please refer to "I.1. Basic Policy" of this report and "Principle 5.1 (Constructive Dialogue with Shareholders)" below.

Principle 3.1 (iii) (Procedures for Determining Remuneration for Senior Management and Directors)

Please refer to “II.1. [Director Remuneration]” of this report.

Principle 3.1 (iv) (Policies and Procedures for Nominating Director and Audit & Supervisory Board Member Candidates and Appointing Executive Officers)

Please refer to “II.2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration” of this report.

Principle 3.1 (v) (Reasons for Director and Audit & Supervisory Board Member Candidate Appointments and Nominations)

Please refer to the convocation notice for the Ordinary General Meeting of Shareholders for proposals regarding the appointment of director and Audit & Supervisory Board member candidates, available on the Bank’s website at the link below.
http://www.aozorabank.co.jp/english/ir/share/stockmtg/

Supplementary Principle 4.1.1 (Disclosure of Summary and Scope of Matters Delegated to Management)

Please refer to “IV.1.2. “Framework for Ensuring the Effective Execution of Director Duties” of this report.

Principle 4.8 (Independent Directors)

Please refer to “II.1 [Support Framework for Outside Directors and Outside Audit & Supervisory Board Members]” of this report.

Principle 4.9 (Independence Criteria)

Please refer to “II.1 [Independent Directors/Audit & Supervisory Board Members]” of this report.

Supplementary Principle 4.11.1 (Policies and Procedures for Nominating Directors)

Please refer to “II.2 Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration” of this report.

Supplementary Principle 4.11.2 (Directors Holding Concurrent Positions at Other Companies)

Please refer to “II.1 [Directors] Outside Directors’ Relationship with the Bank (2)” of this report.

Supplementary Principle 4.11.3 (Analysis and Evaluation of Board Effectiveness)

The Board of Directors strives to fulfill its fiduciary duties and explanation responsibilities to the Bank’s shareholders and performs self-evaluations of Board effectiveness aimed at promoting sustainable growth and enhancing Aozora’s corporate value over the mid- to long-term. The Board assesses Board functions, as well as Board management on the basis of the full utilization of directors’ and Audit and Supervisory Board members’ knowledge, expertise and experience, and takes into consideration the views of each Board member. The results of self-evaluations are shared upon thorough Board discussions.

In FY2016, the Board assessed that it had secured an appropriate framework for fulfilling its roles and responsibilities and had fully realized its decision-making and oversight functions through active discussions and sharing of ideas. The Board assessed that overall Board management was

suitable and effective.
Going forward, the Bank will strive to strengthen its oversight function through constructive discussions with outside directors on various issues including the Bank's long-term management strategy in order to further enhance Board effectiveness.

Supplementary Principle 4.14.2 (Training Policy for Directors and Audit & Supervisory Board Members)

Please refer to "II.1 [Support Framework for Outside Directors and Outside Audit & Supervisory Board Members]" of this report.

Principle 5.1 (Constructive Dialogue with Shareholders)

<Policies to promote constructive dialogue with shareholders>

- The Bank takes every opportunity to engage shareholders in constructive dialogue, including at the General Shareholders' Meeting, in order to contribute to sustainable growth and the further enhancement of the Bank's corporate value over the medium to long-term.

- The Bank gives due consideration to the views and concerns expressed in its communication with shareholders, and provides clear explanation of the Bank's management policy in an effort to gain the understanding of shareholders. The Bank is also committed to responding appropriately to shareholders and other stakeholders, respecting each individual point of view.

- The Bank promotes constructive dialogue with shareholders through the following measures.

  - The Chief Executive Officer (CEO) oversees the Bank's overall communication with shareholders to ensure that constructive dialogue is achieved.

  - The Chief Financial Officer (CFO) oversees investor relations activities. The Corporate Communication Division, in charge of investor relations, cooperates with the Financial Control and Financial Management divisions and, in conjunction with other relevant divisions (such as business strategy and legal divisions), supports the Bank's IR activities and constructive dialogue between shareholders and management.

  - In addition to individual meetings with shareholders and institutional investors, the Bank holds conference calls and presentations for investors and analysts. The Bank also actively participates in individual and institutional investor conferences held by securities firms, towards further enhancing communication with shareholders and investors.

  - The Bank discloses information related to presentation meetings via its website and its shareholder newsletter ("Aozora Tsushin"). Using questionnaires, the Bank makes an effort to understand the views and concerns of its shareholders.

  - The CEO and CFO report the details of dialogue with shareholders to the Board of Directors and Management Committee. The Bank considers appropriate responses to the views and concerns expressed by shareholders, reflecting them in business operations as necessary.

- The Bank carefully manages insider information obtained in its dialogue with shareholders, in accordance with the Bank's internal procedures for preventing insider trading, and verifies information to be disclosed through outside counsel.

2. Capital Structure

Percentage of Overseas Shareholders	More than 30%

[Status of Major Shareholders]

Company Name	Number of Shares	Percentage (%)
The Master Trust Bank of Japan, Ltd.(Trust Account)	75,501,000	6.38
Japan Trustee Service Bank, Ltd.(Trust Account)	68,322,000	5.77
Japan Trustee Service Bank, Ltd.(Trust Account 9)	24,899,000	2.10
Japan Trustee Service Bank, Ltd.(Trust Account 5)	22,941,000	1.93
STATE STREET BANK WEST CLIENT-TREATY 505234	18,847,160	1.59
Japan Trustee Service Bank, Ltd.(Trust Account 4)	17,464,000	1.47
Japan Trustee Service Bank, Ltd.(Trust Account 7)	17,228,000	1.45
Japan Trustee Service Bank, Ltd.(Trust Account 1)	16,963,000	1.43
Japan Trustee Service Bank, Ltd.(Trust Account 2)	16,950,000	1.43
JP MORGAN CHASE BANK 385151	14,251,771	1.20

Controlling Shareholder (excluding Parent Company)	None
Parent Company	None

Supplementary Explanation

"Status of Major Shareholders" is based on total shares outstanding (excluding treasury shares) recorded in the Shareholder Registry as of March 31, 2017.

Sumitomo Mitsui Trust Bank, Limited submitted a Major Shareholders Report dated July 6, 2015, stating its holdings with joint shareholders Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. as of June 30, 2015, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2017.
Shareholding ratios in the Major Shareholders Report are rounded to the second decimal place.

<Company Name> Sumitomo Mitsui Trust Bank, Limited
<Address> 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
<Number of Shares> 36,882,900
<Shareholding Ratio> 3.12%

<Company Name> Sumitomo Mitsui Trust Asset Management Co., Ltd.
<Address> 3-33-1, Shiba, Minato-ku, Tokyo
<Number of Shares> 2,670,000
<Shareholding Ratio> 0.23%

<Company Name> Nikko Asset Management Co., Ltd.
<Address> 9-7-1, Akasaka, Minato-ku, Tokyo
<Number of Shares> 21,732,000
<Shareholding Ratio> 1.84%

BlackRock Japan Co., Ltd. submitted a Major Shareholders Report dated July 6, 2015, stating its holdings with joint shareholders BlackRock Investment Management, LLC, BlackRock (Luxemburg) S.A., BlackRock Life Limited, BlackRock Asset Management Ireland Limited, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A. and BlackRock Investment Management (UK) Limited as of June 30, 2015, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2017.
Shareholding ratios in the Major Shareholders Report are rounded to the second decimal place.

<Company Name> BlackRock Japan Co., Ltd.
<Address> 1-8-3, Marunouchi, Chiyoda-ku, Tokyo
<Number of Shares> 19,799,000
<Shareholding Ratio> 1.67%

<Company Name> BlackRock Investment Management LLC
<Address> 1 University Square Drive, Princeton, NJ, United States
<Number of Shares> 1,305,730
<Shareholding Ratio> 0.11%

<Company Name> BlackRock (Luxemburg) S.A.
<Address> 6D route de Trèves, Senningerberg, 2633, Luxembourg
<Number of Shares> 2,913,000
<Shareholding Ratio> 0.25%

<Company Name> BlackRock Life Limited
<Address> 12 Throgmorton Avenue, London, United Kingdom
<Number of Shares> 2,997,072
<Shareholding Ratio> 0.25%

<Company Name> BlackRock Asset Management Ireland Limited
<Address> JPMorgan House, International Financial Services Centre, Dublin, Ireland
<Number of Shares> 6,362,355
<Shareholding Ratio> 0.54%

<Company Name> BlackRock Fund Advisors
<Address> 400 Howard Street, San Francisco, CA, United States
<Number of Shares> 18,306,000
<Shareholding Ratio> 1.55%

<Company Name> BlackRock Institutional Trust Company
<Address> 400 Howard Street, San Francisco, CA, United States
<Number of Shares> 17,968,408
<Shareholding Ratio> 1.52%

<Company Name> BlackRock Investment Management (UK) Limited
<Address> 12 Throgmorton Avenue, London, United Kingdom
<Number of Shares> 3,987,000
<Shareholding Ratio> 0.34%

Asset Management One Co., Ltd. submitted a change report on January 20, 2017 stating that its holdings as of January 13, 2017 were as follows. Asset Management One is not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholder as of March 31, 2017.
Shareholding ratios in the Major Shareholders Report are rounded to the second decimal place.

<Company Name> Asset Management One Co., Ltd.
<Address>1-8-2 Marunouchi, Chiyoda-ku, Tokyo
<Number of Shares> 61,143,001
<Shareholding Ratio> 5.17%

Mitsubishi UFJ Financial Group submitted a Major Shareholders Report dated March 21, 2017, stating the holdings of joint shareholders Mitsubishi UFJ Trust and Banking Corporation, Mitsubishi UFJ Kokusai Asset Management Co., Ltd., Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and Mitsubishi UFJ Asset Management (UK) Limited as of March 13, 2017, as follows. They are not included, however, in the above table of major shareholders as the Bank was unable to confirm the actual number of shares held by the aforementioned shareholders as of March 31, 2017.
Shareholding ratios in the Major Shareholders Report are rounded to the second decimal place.

<Company Name> Mitsubishi UFJ Trust and Banking Corporation
<Address>1-4-5 Marunouchi, Chiyoda-ku, Tokyo
<Number of Shares> 43,646,000
<Shareholding Ratio> 3.69%

<Company Name> Mitsubishi UFJ Kokusai Asset Management Co., Ltd.
<Address>1-12-1 Marunouchi, Chiyoda-ku, Tokyo
<Number of Shares> 11,896,000
<Shareholding Ratio> 1.01%

<Company Name> Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
<Address>2-5-2 Marunouchi, Chiyoda-ku, Tokyo
<Number of Shares> 1,427,800
<Shareholding Ratio> 0.12%

<Company Name> Mitsubishi UFJ Asset Management (UK) Limited
<Address>24 Lombard Street, London, EC3V 9AJ, United Kingdom
<Number of Shares> 4,414,000
<Shareholding Ratio> 0.37%

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Banks
Number of Employees (Consolidated) as of the End of Previous Fiscal Year	More than 1000
Sales (Consolidated) as of the End of Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of Previous Fiscal Year	From 10 to less than 50

4. Measures to Protect Minority Shareholders when Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

1. Status of Major Shareholders

"Status of Major Shareholders" in "2. Capital Structure" above is based on total shares outstanding (excluding treasury shares) recorded in the Shareholder Registry as of March 31, 2017.

2. Treasury Shares

As of March 31, 2017, the Bank has 16,495,300 treasury shares (equivalent to 1.39% of total shares outstanding) allocated to future stock options.

II Corporate Governance Framework and Business Management Organization for Decision-making, Business Execution, and Management Oversight

1. Organization Structure and Business Operations

Organization Structure	Company with Audit & Supervisory Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (except when concurrently serving as President)
Number of Directors	8
Appointment of Outside Directors	Appointed
Number of Outside Directors	4
Number of Independent Directors	4

Outside Directors' Relationship with the Bank (1)

Name	Attribute	Relationship with the Bank*										
		a	b	c	d	e	f	g	h	i	j	k
Shunsuke Takeda	From another company								△			
Hiroyuki Mizuta	From another company								○			
Ippei Murakami	From another company											
Tomonori Ito	From another company											

*Categories for “Relationship with the Bank”

”○” Director presently falls or has recently fallen under the category
“△” Director fell under the category in the past
“●” A close relative of the director presently falls or has recently fallen under the category
“▲” A close relative of the director fell under the category in the past

a. Executive of the Bank or its subsidiaries
b. Non-executive director or executive of a parent company of the Bank
c. Executive of a fellow subsidiary company of the Bank
d. Party whose major client is the Bank or an executive thereof
e. Major client of the Bank or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary compensation or other assets from the Bank, in addition to director remuneration
g. Major shareholder of the Bank (or an executive of a major shareholder in the case of a corporate shareholder)
h. Executive of a client of the Bank (who does not fall under categories d, e, or f) (the director himself/herself only)
i. Executive of a company with which the Bank has mutually appointed outside directors (the director himself/herself only)
j. Executive of a company or organization that receives donations from the Bank (the director himself/herself only)
k. Others

Outside Directors’ Relationship with the Bank (2)

Name	Independent Director	Supplementary Explanation	Reasons for Appointment
Shunsuke Takeda	Yes	**Main Concurrent Post** Advisor, ORIX Corporation **Relationship with Aozora customers, etc.** Former employee of DAIKYO INCORPORATED, a company with which the Bank conducts lending and other transactions	Mr. Shunsuke Takeda was appointed for his substantial experience, achievements, and expertise in the executive management of financial institutions and business corporations. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
Hiroyuki Mizuta	Yes	**Main Concurrent Post** Representative Director and Chairman of Nippon Television City Corp. **Relationship with Aozora customers, etc.** Representative Director and Chairman of Nippon Television City Corp., a company with which the Bank conducts lending and other transactions	Mr. Hiroyuki Mizuta was appointed for his substantial experience, achievements and expertise in the executive management of banks and business corporations. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.

		Former employee of a Resona Group bank with which the Bank conducts deposit and other transactions	
Ippei Murakami	Yes	**Main Concurrent Post** Special Advisor, Nisshin Seifun Group Inc. **Relationship with Aozora customers, etc.** None	Mr. Ippei Murakami was appointed for his substantial experience, achievements and expertise in the executive management of business corporations. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
Tomonori Ito	Yes	**Main Concurrent Post** Professor, Graduate School of International Corporate Strategy, Hitotsubashi University External Board Member, PARCO Co., LTD. Outside Director, Electric Power Development Co., Ltd. **Relationship with Aozora customers, etc.** None	Mr. Tomonori Ito was appointed for his substantial experience and achievements in domestic and overseas financial institutions and expertise as a graduate school professor. He was selected as an independent director by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.

*In accordance with the Tokyo Stock Exchange's Guidebook on Timely Corporate Disclosure Volume 3, Chapter 1 ("Matters to Consider when Securing Independent Officers, Section 1.4 Information Regarding Company Affiliations"), 'Relationship with Aozora customers, etc.' does not include companies from which outside directors resigned over 10 years ago.

Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Status, Composition and Chairperson of Non-Mandatory Committees

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Name of Committee	Nomination & Remuneration Committee	Nomination & Remuneration Committee
Total Number of Members	3	3
Full-time Members	0	0
Full-time Directors	1	1
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	Outside Director	Outside Director

Supplementary Explanation

In addition to the Nomination & Remuneration Committee, the Bank has also established the Audit & Compliance Committee.

Please refer to "II.2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration" of this report for details.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	3

Cooperation between Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Division

The Audit & Supervisory Board maintains close coordination with accounting auditors through regular meetings (more than four meetings a year; eleven held in FY2016), exchanging ideas and information on internal controls for auditing and financial reporting.
The Audit & Supervisory Board receives regular reports from the Internal Audit Division (more than four reports a year; seven received in FY2016) on internal audit policy and results, aimed at ensuring efficient and effective auditing. The standing Audit & Supervisory Board member meets with the Bank's Internal Audit Division (at least once a month) to receive audit reports and exchange ideas and information as necessary, in addition to weekly meetings with the Head of the Internal Audit Division.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	2
Number of Independent Audit & Supervisory Board Members	2

Outside Audit & Supervisory Board Members' Relationship with the Bank (1)

Name	Attribute	Relationship with the Bank*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kiyoto Hagiwara	From another company													
Toraki Inoue	Certified Public Accountant													

*Categories for "Relationship with the Bank"
"○" Presently falls or has recently fallen under the category
"△" Fell under the category in the past
"●" A close relative presently falls or has recently fallen under the category
"▲" A close relative fell under the category in the past

a. Executive of the Bank or its subsidiary
b. Non-executive director or accounting advisor of the Bank or its subsidiaries
c. Non-executive director or executive of a parent company of the Bank
d. Audit & Supervisory Board member of a parent company of the Bank
e. Executive of a fellow subsidiary company of the Bank
f. Party whose major client is the Bank or an executive thereof
g. Major client of the Bank or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary compensation or other assets from the Bank, in addition to Audit & Supervisory Board member remuneration
i. Major shareholder of the Bank (or an executive of a major shareholder in the case of a corporate shareholder)
j. Executive of a client of the Bank (who does not fall under categories f, g, or h) (the Audit & Supervisory Board member himself/herself only)
k. Executive of a company, with which the Bank has mutually appointed outside directors (the Audit & Supervisory Board member himself/herself only)
l. Executive of a company or organization that receives donations from the Bank (the Audit & Supervisory Board member himself/herself only)
m. Others

Outside Audit & Supervisory Board Members' Relationship with the Bank (2)

Name	Independent Audit & and Supervisory Board Member	Supplementary Explanation	Reasons for Appointment
Kiyoto Hagiwara	Yes	**Main Concurrent Post** Senior Advisor, The Securities Analysts Association of Japan (SAAJ)	Mr. Kiyoto Hagiwara's appointment as an external Audit & Supervisory Board member was deemed suitable due to his substantial experience and expertise in the finance and banking business. He was selected as an independent Audit and Supervisory Board member by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.
Toraki Inoue	Yes	**Main Concurrent Post** General Manager, Toraki Inoue Certified Public Accountant Office Representative Director and President, Accounting Advisory Co., Ltd Supervisory Director, GLP J-REIT Outside Audit & Supervisory Board Member, Kao Corporation	Mr. Toraki Inoue's appointment as an external Audit & Supervisory Board member was deemed suitable due to his substantial experience and expertise as an auditor. He was selected as an independent Audit and Supervisory Board member by a resolution of the Board of Directors as it was determined that there is no risk of a conflict of interest with general shareholders under the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.

[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/ Audit & Supervisory Board Members	6

Matters relating to Independent Directors/Audit & Supervisory Board Members

The Bank determines the independence of outside directors and outside Audit & Supervisory Board members in accordance with the standards set forth by the Tokyo Stock Exchange. All qualified outside directors and outside Audit and Supervisory Board members are designated independent.

Outside Directors: 4
Outside Audit & Supervisory Board Members: 2

<Support Framework for Outside Directors and Outside Audit & Supervisory Board Members>

Please refer to II.1. "[Support Framework for Outside Directors and Outside Audit & Supervisory Board Members]" of this report.

[Incentives]

Incentive for Directors	Stock Options

Supplementary Explanation

The Bank abolished the officer retirement allowance program for full-time directors through a resolution of the Ordinary General Meeting of Shareholders held on June 26, 2014. The Bank also introduced equity compensation type stock options for directors in order for them to share the risks and benefits of stock price fluctuations with shareholders, and to further motivate directors to contribute to the enhancement of Aozora's corporate value and an increase in the share price over the medium to long-term.

Recipients of Stock Options	Full-time Directors

Supplementary Explanation

In addition to annual base remuneration, the Bank grants equity compensation type stock options to full-time directors in order for them to share the risks and benefits of stock price fluctuations with shareholders, and to further motivate directors to contribute to the enhancement of Aozora's corporate value and an increase in the share price over the medium to long-term.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure

Supplementary Explanation

<Total Remuneration Amounts for Directors/Audit & Supervisory Board Members, and Outside Officers>

The breakdown of total officer remuneration for FY2016 is as follows:

Director remuneration: 348 million yen
Audit & Supervisory Board member remuneration: 53 million yen
Outside director and outside Audit & Supervisory Board member remuneration: 80 million yen

Policy for Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy for Determining Remuneration Amounts and Calculation Methods

<Board of Directors Policy and Procedure for Determining Director/Executive Officer Remuneration>

・Basic Policy for Determining Director, Audit & Supervisory Board Member, and Executive Officer Remuneration

In order to achieve Aozora's management philosophy of being "firmly established in the Japanese financial system" and "truly committed to contributing to the economic and social growth of Japan", the Bank believes it is necessary to provide an environment (remuneration) which supports the mental well-being of capable employees and fosters high morale, motivation and a sense of pride towards work.
The Bank aims to realize this environment with the implementation of the following basic policy for determining remuneration.

1. Remuneration framework in line with the Bank's vision
   The Bank aims to build a framework in which business performance is firmly linked to its objectives and values.

2. Remuneration framework appropriately reflecting performance
   The Bank's remuneration framework is structured on the principle of 'Pay for performance' and reflects the Bank's commitment to sustainable growth, sound risk-taking through appropriate risk management, compliance, and customer protection.

3. Remuneration framework serving the interests of stakeholders including shareholders
   The Bank will adopt a remuneration framework that is consistent with the values of stakeholders, including shareholders.

4. Remuneration methodology guaranteeing effective governance
   In determining remuneration, the Bank will strive to ensure transparency and independence from any specific influences.

In accordance with above the basic policy, remuneration for directors in principle consists of base remuneration (fixed remuneration), bonus, and equity compensation type stock options for full-time directors, and solely of base remuneration (fixed remuneration) for outside directors.
Remuneration for executive officers consists of base remuneration (fixed remuneration), bonus, equity compensation type stock options, and retirement allowance.

Payments are made in accordance with the following procedures.

・Procedure for Determining Director Remuneration

Mainly comprised of outside directors, the Nomination & Remuneration Committee determines policy regarding individual director remuneration including respective amounts. To ensure that full-time director remuneration functions as a sound incentive for sustainable growth, the Nomination & Remuneration Committee discusses and sets the appropriate proportion of cash remuneration and equity compensation type stock options.
The maximum annual remuneration, comprising base remuneration and bonus, was set at 600 million yen by a resolution of the 82nd Ordinary General Meeting of Shareholders held on June 26, 2015.

(1) Base Remuneration
Base remuneration is a fixed remuneration in accordance with full-time or non full-time status, position, and responsibilities. The Nomination & Remuneration Committee determines the appropriate level of base remuneration utilizing research data obtained from an external specialist agency.

(2) Bonus
The Nomination & Remuneration Committee sets a base bonus amount in accordance with position and responsibilities, determining the final payment amount at the end of each relevant period after considering factors including performance, the status of internal controls, risk-return balance, and the impact of external environmental factors.

(3) Equity Compensation Type Stock Options
The Nomination & Remuneration Committee determines equity compensation type stock options in accordance with the internal regulations for the handling of stock options, and the amount to be allocated is subsequently determined by a resolution of the Board of Directors. On June 26, 2014, the 81st Ordinary General Meeting of Shareholders approved a resolution granting full-time directors equity compensation type stock options of up to 150 million yen per year in addition to the base remuneration.

・Procedure for Determining Executive Officer Remuneration

The Nomination & Remuneration Committee determines policy regarding the remuneration of individual executive officers including the respective amounts. To ensure that executive officer remuneration functions as a sound incentive for sustainable growth, the Nomination & Remuneration Committee discusses and sets the appropriate proportion of cash remuneration and equity compensation type stock options.

(1) Base Remuneration
Base remuneration is a fixed remuneration in accordance with position and responsibilities. The Nomination & Remuneration Committee determines the appropriate level of base remuneration utilizing research data obtained from an external specialist agency.

(2) Bonus
At the end of each relevant period, the Nomination & Remuneration Committee determines final bonus payment amounts taking into consideration factors including performance, the status of internal controls, and the impact of external environmental factors.

(3) Equity Compensation Type Stock Options
The Nomination & Remuneration Committee determines equity compensation type stock options in accordance with internal regulations for the handling of stock options, and the amount to be allocated is subsequently determined by a resolution of the Board of Directors.

(4) Executive Officer Retirement Allowance
In accordance with internal regulations, the Nomination & Remuneration Committee calculates executive officer retirement allowance by multiplying total base remuneration (accumulated over the period of service) by a uniform rate.

<Procedure for Determining Audit & Supervisory Board Member Remuneration>

In accordance with the maximum remuneration approved by the annual shareholders' meeting, the Bank determines remuneration for individual Audit & Supervisory Board members through discussion with the Audit & Supervisory Board, also taking into consideration the views of each member and deliberations by the Nomination & Remuneration Committee.

Remuneration for Audit & Supervisory Board members is comprised solely of base remuneration (fixed remuneration) in accordance with full-time or non full-time status, allocation of audit work, as well as the components and level of director remuneration. The Bank determines the appropriate level of base remuneration utilizing research data obtained from an external specialist agency. On June 23, 2006, the 73rd Ordinary General Meeting of Shareholders approved a resolution granting Audit & Supervisory Board members base remuneration of up to 600 million yen per year.

[Support Framework for Outside Directors and Outside Audit & Supervisory Board Members]

<Support Framework for Outside Directors>

1. The Bank's independent outside directors actively contribute to discussions at Board of Directors meetings, as well as meetings convened by the Nomination & Remuneration Committee which comprise mainly outside directors and the Audit & Compliance Committee comprised solely of outside directors, making recommendations as necessary. Outside directors also exchange information with other board and committee members, as well as maintaining contact with senior management and collaborating with the Audit & Supervisory Board and its members. The Bank has established the Corporate Secretary Office to serve as liaison and coordinator between outside directors and senior management.

2. As secretariat for the Board of Directors and Board-level committees, the Corporate Secretary Office collaborates with respective business groups to provide directors with the information needed to execute their duties, supports directors at meetings, and arranges meetings with divisions throughout the Bank as necessary.

3. The Bank provides materials related to agenda items to the Board of Directors and Board-level committees in advance of meetings to allow directors sufficient time to review. In addition, upon preparation by the secretariat, the Bank sends the minutes of meetings to each director and committee member to verify the accuracy of the statements recorded.

4. The Bank sends minutes and other information pertaining to management-level committees (Management Committee, etc.) to outside directors periodically to keep them informed about the progress of business execution, as well as communicate important information regarding the Bank's business, finance, and organization.

<Support Framework for Outside Audit & Supervisory Board Members>

1. The Bank has established the Office of Audit & Supervisory Board to support Audit & Supervisory Board members in the execution of their duties.

2. The Office of Audit & Supervisory Board supports outside Audit & Supervisory Board members by providing them with necessary documents including reports and informing them about meetings and other matters related to the Audit & Supervisory Board and the Board of Directors.

3. The Bank periodically sends minutes and other information pertaining to management-level committees to outside Audit & Supervisory Board members to keep them informed about the progress of business execution.

<Training for Directors and Audit & Supervisory Board Members>

All directors and Audit & Supervisory Board members receive a directors' handbook outlining the Bank's main internal rules and regulations for executive officers. For newly appointed outside directors and outside Audit & Supervisory Board members, the executive officer in charge of each business group conducts orientations to explain the Bank's business operations.
At the Board of Directors level, the Bank also invites lawyers and other independent experts from outside the Bank to conduct training seminars.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration (Overview of Current Corporate Governance System)

The Bank's corporate governance system is organized as follows.

<Audit and Management Oversight>

1. Board of Directors
The Board of Directors establishes important business policy and oversees the execution of duties by executive officers entrusted with daily business operations.

2. Audit & Supervisory Board
The Audit & Supervisory Board formulates the Bank's basic audit policy and audit plan. The Audit & Supervisory Board meets at least once a month to discuss and resolve important audit matters put before the board.

3. Nomination & Remuneration Committee
Mainly comprised of outside directors, the Nomination & Remuneration Committee recommends candidates to the Board of Directors for Board and Audit & Supervisory Board membership, as well as other important roles. In addition, the Nomination & Remuneration Committee determines the remuneration of directors and executive officers, and makes recommendations to the Audit & Supervisory Board regarding the remuneration of Audit & Supervisory Board members.

4. Audit & Compliance Committee
The Audit & Compliance Committee comprises outside directors who oversee internal and external audits, risk management, compliance, credit audits, the financial reporting process, and other business operations.

<Execution of Duties>

1. Management Committee
The Management Committee comprises executive officers (including senior management) specially appointed by the Board of Directors. The Management Committee convenes weekly and determines important matters related to the Bank's daily operations, in accordance with the policies set forth by the Board. The Management Committee has the following sub-committees to which it delegates authority: ALM Committee, Credit Committee, Integrated Risk Committee, Investment Committee, CAPEX Committee, and Customer Protection Committee. Sub-committees have substantive knowledge and experience in various aspects of the Bank's business operations, as well as sound decision-making capabilities.

<Basic Policy for Nominating Directors and Audit & Supervisory Board Member Candidates, and Appointing Executive and Other Important Officers>

In order to realize Aozora's basic corporate governance policy, the Bank has established the following basic guidelines for nominating directors and Audit & Supervisory Board members, and appointing executive and other important officers.

・Basic Guidelines for Nominating Director Candidates

Candidates should:

1. Possess substantial management knowledge and expertise
2. Have superior insight, be able to make management decisions and exercise sound judgment
3. Be committed to the duties of director
4. Be able to earn the trust of the Bank's stakeholders, including shareholders
5. In the case of outside directors, be able to conduct management oversight and offer appropriate advice

・Basic Guidelines for Nominating Audit & Supervisory Board Member Candidates

Candidates should:

1. Possess substantial management knowledge and expertise
2. Have knowledge of core financial rules and regulations, finance and accounting
3. Be fair, impartial, and able to perform duties from an independent standpoint
4. Be able to earn the trust of the Bank's stakeholders
5. Have the ability to communicate effectively with shareholders, the Board of Directors, and senior management to ensure management soundness and transparency

・Basic Guidelines for Appointing Executive and Other Important Officers

Candidates should:

1. Have excellent management qualities
2. Demonstrate leadership skills and be able to assume responsibility for important management functions related to the Bank's business strategy

<Procedure for Nominating Directors and Appointing Executive and Other Important Officers>

Mainly comprised of outside directors, the Nomination & Remuneration Committee deliberates on the nomination of director candidates and the appointment of executive officers, making recommendations to the Board of Directors. Based on these recommendations, the Board of Directors proposes necessary resolutions and reaches its decision through deliberation. Prior to deliberations by the Nomination & Remuneration Committee, the secretariat conducts checks into possible qualification restrictions, reasons for disqualification, concurrent posts, as well as the professional history and financial standing of candidates.

<Procedure for Nominating Audit & Supervisory Board Members>

In nominating candidates for the Audit & Supervisory Board, the Nomination & Remuneration Committee deliberates and makes recommendations to the Board of Directors, taking into consideration the views of Audit & Supervisory Board members. Having obtained the consent of the Audit & Supervisory Board, the Board of Directors then proposes necessary resolutions and reaches

its decision through deliberation. Prior to deliberations by the Nomination and Remuneration Committee, the secretariat conducts checks into possible qualification restrictions, reasons for disqualification, concurrent posts, as well as the professional history and financial standing of candidates.

<Limitation of Liability Agreement>

As stated in Part 1.IV.6 “State of Corporate Governance” (1)-1-(4) of the 84rd FY Securities Report, the Bank has agreed with directors (excluding executive officers) and Audit & Supervisory Board members to a “Minimum Liability Amount” pursuant to Article 425 (1) of the Companies Act for liabilities under Article 423 (1) of said Act.

3. Reasons for Adoption of Current Corporate Governance System

The Bank maintains a company with Audit & Supervisory Board structure and has established the Nomination & Remuneration Committee and the Audit & Compliance Committee, mainly comprising outside directors, to provide supplementary supervision and enhanced management oversight. The Bank believes that this corporate governance structure is most effective in realizing the management philosophy and policy of the Bank. Going forward, the Bank intends to conduct regular reviews of its governance framework and functions, making revisions as necessary to ensure compatibility with its management policy.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Revitalize the General Shareholders' Meetings and Ensure Smooth Exercise of Voting Rights

	Supplementary Explanation
Early Notification of General Shareholders' Meeting	In FY2017, convocation notices were mailed three business days before the date required by law. Since FY2015, the Bank has posted the convocation notice on the Tokyo Stock Exchange and Aozora websites prior to mailing.
Scheduling Shareholders' Meetings Avoiding Peak Days	In principle, the Bank avoids peak days when scheduling shareholders' meetings.
Electronic Exercise of Voting Rights	1. Exercise of voting rights via the Internet 2. Exercise of voting rights via mobile phone
Participation in Electronic Voting Platform	The Bank has utilized the ICJ voting platform since the 75th FY Ordinary General Meeting of Shareholders held in June 2008.
Providing Convocation Notice in English	The Bank prepares a full English translation of the convocation notice which is submitted to the Tokyo Stock Exchange, posted on the Aozora website, and registered on the ICJ voting platform.
Other	During the shareholders' meeting, business reports and other agenda matters are projected on to a large screen for ease of understanding.

2. IR Activities

	Supplementary Explanation	Briefings by CEO
Establishment/ Announcement of Disclosure Policy	The Bank's disclosure policy outlining its basic policy, procedure and framework for information disclosure is provided on the Aozora website.	
Regular Investor Briefings for Individual Investors	The Bank explains its business and earnings results at regular presentation meetings held for individual investors.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	The Bank holds quarterly net conferences for domestic analysts and institutional investors, in addition to analyst meetings on a half-yearly basis. The Bank also strives to enhance communication with domestic analysts and institutional investors through individual meetings.	Yes
Regular Investor Briefings for Overseas Investors	The Bank uploads English audio presentations to its website twice a year for overseas analysts and investors in addition to meeting with overseas investors at domestic conferences organized by securities companies. The Bank also visits overseas investors for one-on-one meetings as part of ongoing efforts to further enhance communication with investors abroad outside of conference participation.	Yes
Posting of IR Materials on Website	Materials such as earnings reports, securities reports, and annual reports are made available on the Bank's website upon disclosure.	
Establishment of Division in Charge of IR	The Bank's Corporate Communication Division includes IR Group 1, responsible for domestic and overseas investor relations, and IR Group 2, responsible for retail investor-related matters.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Bank describes its management philosophy as “being firmly established in the Japanese financial system and truly committed to contributing to the economic and social growth of Japan.” The Bank strives to provide highly differentiated and specialized services, and reaffirms its commitment to a strong risk management framework and the maintenance of sound management in order to preserve its strength and financial discipline under any future conditions. By implementing these measures, the Bank aims to earn a high reputation from its stakeholders in order to further enhance Aozora’s corporate value. In keeping with this objective, the Bank has established the Social Value Creation Working Group, a management-level group that supports the bank-wide promotion of activities which fulfill our social responsibilities, and will strive to enhance collaboration with all its stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	In addition to ongoing environmental conservation activities in support of the Tokyo Metropolitan Government’s greenhouse gas emission cap-and-trade program, and waste management conscious business operations, the Bank’s branches undertake various local activities including staff volunteer activities and support for areas affected by disaster.
Development of Policies on Information Provision to Stakeholders	In addition to disclosing information as required by law, the Bank is committed to the proactive disclosure of information beneficial to stakeholders. The Bank has implemented rules related to timely information disclosure and formulated a basic PR policy to protect the interests of stakeholders and contribute to the maintenance and sound development of the securities market.
Other	The Bank appoints capable personnel to management roles regardless of gender, and the number of women in positions of management has been increasing yearly as a result. As of April 2017, 10.1% of management positions are held by women, a level higher than the industry average. The Bank currently has one female executive officer and will continue to appoint capable individuals going forward.

IV. Matters Related to the Internal Control System

1. Basic Policy on Internal Control System and Progress of System Development

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, the Bank has established a basic policy which governs the framework for appropriate business operations at the Bank and its subsidiaries, as outlined below.

1. Framework for Ensuring the Duties of Directors, Officers and Employees Comply with Laws, Regulations, and the Articles of Incorporation

(1) The Bank is committed to developing good corporate governance and effective internal controls, and all directors, officers and employees are expected to comply with applicable laws and regulations. In addition to implementing compliance-related regulations, the Bank has established the Code of Conduct and Ethics master policy which articulates the standards for appropriate conduct.

(2) The Board of Directors comprises outside directors who have substantial knowledge and expertise in their respective fields. This structure is in keeping with the Bank's corporate governance objective to ensure management discipline and enhanced oversight, in order to conduct daily operations based on the Bank's management philosophy.

(3) The Board of Directors has established the Nomination & Remuneration Committee, which deliberates on such matters as the appointment and remuneration of directors and other important officers, as well as the Audit & Compliance Committee which conducts verifications related to the Bank's internal control functions. Mainly comprising outside directors, both committees examine and verify matters that fall within their respective Board-delegated roles from a multifaceted and specialized perspective and report their findings to the Board of Directors.

(4) The Board of Directors has established the Compliance & Operations Management Division, which is responsible for the overall supervision of compliance-related matters. The Compliance & Operations Management Division implements compliance-related regulations and promotes compliance awareness among directors, officers and employees through training.

(5) The Board formulates and monitors yearly compliance programs, providing a detailed implementation plan for each fiscal year as part of ongoing efforts to enhance the effectiveness of the Bank's compliance framework.

(6) The Board of Directors has established the Internal Audit Division, which is independent of all business groups. Acting in its capacity as an independent division, the Internal Audit Division develops the Bank's internal control system in accordance with an annual Board-approved audit plan and audits the implementation status of the plan, reporting its findings to the Chief Executive Officer, Board of Directors, and the Audit & Compliance Committee.

(7) The Bank strives to detect and address incidents of fraud and other irregularities in a timely manner through the Aozora Whistleblower Hotline Program, which allows directors, officers and employees to report possible violations of laws and regulations or the Articles of Incorporation directly to a specially designated division.

(8) The Bank is committed to maintaining business integrity and fulfilling its social responsibility. Accordingly, the Bank has established an appropriate framework for preventing transactions of any kind with so-called anti-social elements. This includes the prevention of loss or damage due to such elements, the elimination of unjustified interference or demands as well as the prohibition of funding.

(9) The Bank ensures the protection and convenience of customers through the implementation of a management framework for providing explanations, support, and information to customers, in addition to managing outsourcing and conflicts of interest.

(10) The Bank has the necessary framework in place for preventing insider trading or the misuse of customer information by officers and employees for fraudulent transactions.

2. Framework for Ensuring the Effective Execution of Director Duties

The Board of Directors has established the Management Committee, which comprises Board-appointed directors and executive officers. Through the Management Committee, the Board aims to further promote efficiency through the separation of management and business operations, and ensure a swift decision-making process. The Management Committee is authorized by the Board to make decisions regarding the execution of all operations, excluding the detailed particulars of Board-approved matters and matters subject to Board resolution under law. The Management Committee establishes sub-committees to which it partially delegates authority.

3. Management and Storage of Information Related to Execution of Director Duties

The Bank stores and manages information related to the execution of director duties, including the minutes of Board of Director meetings and other management meetings, in accordance with applicable laws and regulations and internal rules for document management.

4. Framework for Risk Management Against Loss

(1) Risk management is a priority for the Bank. The Bank's risk management framework allows for an integrated approach to identifying, assessing, and controlling risks to the Bank's operations.

(2) The Board of Directors has categorized risks to the Bank's business as Market Risk, Credit Risk, Liquidity Risk, and Operational Risk in accordance with the Bank's Integrated Risk Management master policy. The Board manages each risk by category and establishes regulations outlining the Bank's basic policy towards each risk category.

(3) The Board of Directors assigns the management of each risk category to respective divisions to ensure that risks are accurately identified, assessed, and controlled. Each risk management division submits regular reports to the Management Committee, Audit & Compliance Committee, and the Board of Directors.

(4) The Internal Audit Division audits the Bank's risk management framework, assessing the effectiveness and appropriateness, and reports its findings to the Chief Executive Officer, the Audit & Compliance Committee, and the Board of Directors.

(5) The Bank has formulated its Business Continuity Plan in preparation for emergencies such as disasters and system irregularities. In the event of a disaster, the Bank's Chief Executive Officer assumes overall responsibility for the Bank's business operations.

5. Framework for Ensuring Appropriate Bank and Subsidiary Operations

(1) In order to ensure appropriate and effective Bank and subsidiary management, the Board of Directors has established a basic policy for business management, legal and compliance management, and risk management under the Bank's Management of Group Companies master policy.

(2) The Bank recognizes each subsidiary's right to independence and self-management, and remains committed to conducting appropriate business operations through the development of an integrated internal control system for the Bank and its subsidiaries. The Bank also encourages its subsidiaries to adhere to policies and procedures, including the Code of Conduct and Ethics, to the extent permitted under laws and regulations.

(3) The Bank has developed a framework for managing conflicts of interest, aimed at protecting the interest of customers. The Bank also has the necessary framework in place to ensure that transactions with subsidiaries are in compliance with the Bank's Arm's Length Rule.

(4) To ensure the credibility and appropriateness of the Bank and its subsidiaries' consolidated financial reports, the Bank has formulated the Internal Control System for Financial Reports procedure, which provides a framework for appropriate internal controls of financial reporting.

(5) The Bank's Internal Audit Division audits the business operations of subsidiaries to the extent permitted under laws and regulations.

6. Assignment of Assistants to Audit & Supervisory Board Members upon Request

In addition to establishing the Office of Audit & Supervisory Board to support members in the execution of their duties, the Bank assigns qualified staff to provide necessary assistance.

7. Ensuring Effectiveness of Instructions to Audit and Supervisory Board Assistants and Independence from Directors

(1) The authority for issuing instructions or directives to staff assisting Audit & Supervisory Board members resides solely with Audit & Supervisory Board members.

(2) The Standing Audit & Supervisory Board member interviews candidates and conducts performance evaluations.

(3) All matters pertaining to staff assisting Audit & Supervisory Board members, including transfers, promotions, remuneration, and disciplinary action, require the approval of the Standing Audit and Supervisory Board member.

8. Framework for Reporting to Audit & Supervisory Board Members

(1) Audit & Supervisory Board members may, at their discretion, request reports directly from directors, officers, and employees of the Bank or its subsidiaries, including regarding the Whistleblower Program and any reported violations.

(2) Directors, officers, and employees of the Bank and its subsidiaries are required to report violations of laws and regulations or matters that may result in significant losses for the Bank or its subsidiaries to the Audit & Supervisory Board members.

9. Prohibition of Disadvantageous Treatment to Whistleblowers

Directors, officers, and employees who make reports to Audit & Supervisory Board members will not be subject to disadvantageous treatment due to such reporting.

10. Additional Framework for Ensuring Effective Audit Duties

(1) Directors, officers, and employees will cooperate with audits conducted in accordance with the annual audit plan (including budget) formulated by the Audit & Supervisory Board.

(2) Audit & Supervisory Board members may obtain the advice of lawyers, certified public accountants, and other experts to assist in the effective execution of audits, where necessary.

(3) The Bank will cover all costs incurred by Audit & Supervisory Board members in the performance of their auditing duties, including costs from (2) above.

2. Basic Policy on Elimination of Anti-Social Forces

1. Basic Policy

• Aozora Bank and its subsidiaries are committed to preventing transactions of any kind with so-called anti-social elements.

• Prior to entering into any transaction, the Bank conducts extensive checks of all potential customers using its comprehensive database in order to eliminate possible transactions with anti-social elements. The Bank also conducts regular checks of existing customers and, in the event an inappropriate transaction is detected, the Bank takes necessary steps to immediately cancel the transaction with the cooperation of the relevant external institutions.

• The Bank exercises the utmost caution and prudence when interacting with suspected anti-social elements and remains resolute in its efforts to reject all violent and unjustified demands that may result in unwarranted payouts or the provision of funding to such elements.

2. Status of Framework Development

• The Bank's Code of Conduct and Ethics, with which officers and employees of the Bank and its subsidiaries are expected to comply, includes a clause on the elimination of anti-social elements. The Code clearly delineates the Bank's policy regarding the prevention of any involvement by anti-social elements in the Bank's management, as well as losses or damages that may be incurred as a result of such involvement. The Bank has also established various manuals which include the Procedure for Elimination of Anti-Social Elements and the Manual for Prevention of Unjustified Demands.

• The Compliance & Operations Management Division, which supervises the Bank's measures against anti-social elements, has established the Financial Crime Management Office which formulates policy regarding anti-social elements and manages relevant Bank and subsidiary information.

• The Bank assigns a supervisor in charge of anti-social element policy to the Compliance Operations & Management Division and each retail branch. The supervisor is also responsible for the prevention of unjust demands, as stipulated under the Act on Prevention of Unjust Acts by Organized Crime Group Members. The Bank also assigns to each subsidiary a supervisor in charge of preventing unjust demands.

• As part of the Bank's framework for preventing transactions with anti-social elements, the Bank has newly introduced an anti-social element elimination clause in banking transaction contracts (basic agreements for lending transactions), deposit agreements, and business consignment contracts.

• The Bank is committed to eliminating all transactions with potentially high-risk customers including anti-social elements. Prior to entering into any transaction, the Bank vets potential customers for any possible connection to anti-social elements using the Bank's shared database with its subsidiaries, and performs regular checks on transactions already in progress. Any information pointing to a connection with anti-social elements is promptly reported to the Compliance & Operations Management Division and the Internal Audit Division. The Compliance & Operations Management Division manages all Bank and subsidiary information related to anti-social elements.

• The Bank keeps senior management and the Board of Directors informed about the framework for eliminating anti-social elements through regular reporting, and senior management is immediately informed of any inappropriate transaction that may be discovered. A cancellation policy is formulated with timely and appropriate reports to management, and the relevant transaction is cancelled under the full participation and direction of senior management.

• The Bank maintains close contact with government offices in charge of police matters and takes part in training activities and meetings held by such organizations as the Tokyo Metropolitan Center

for the Elimination of Organized Crime Syndicates, the Tokubouren (a public interest incorporated association within the Tokyo Metropolitan Police Department for preventing violent crime), and the Association for the Prevention of Violent Crime. The Bank also continues to strengthen collaborations with external third parties, such as lawyers who specialize in anti-racketeering measures.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted

Supplementary Explanation

The Bank will take into consideration the necessity and value of anti-takeover measures, takeover bids related to treasury shares, capital policy resulting in transfer of corporate control or significant dilution, and adopt appropriate procedures while providing sufficient explanation to its shareholders.

2. Other Matters Concerning Corporate Governance System

The Audit & Supervisory Board has established a basic policy and assessment criteria to ensure that decisions made in regard to the appointment, dismissal or non-reappointment of accounting auditors are appropriate, credible, and transparent.

The Audit and Supervisory Board determines the appointment and dismissal of accounting auditors based on detailed evaluation criteria including auditing experience, quality of audits, auditing framework and remuneration. The Board pays particular attention to the following criteria outlined in the basic policy when determining the appointment and reappointment of accounting auditors.

Accounting auditors should:

1. Possess substantial knowledge and a high level of understanding regarding the various operations performed by banks and financial institutions in general;

2. Have substantial experience and expertise in auditing and internal control (J-SOX) audits of other financial institutions including banks;

3. Have a large number of certified public accountants secured in Japan and overseas, including through business alliance partners, and be able to provide appropriate auditing services for Aozora Bank and the Aozora Bank Group;

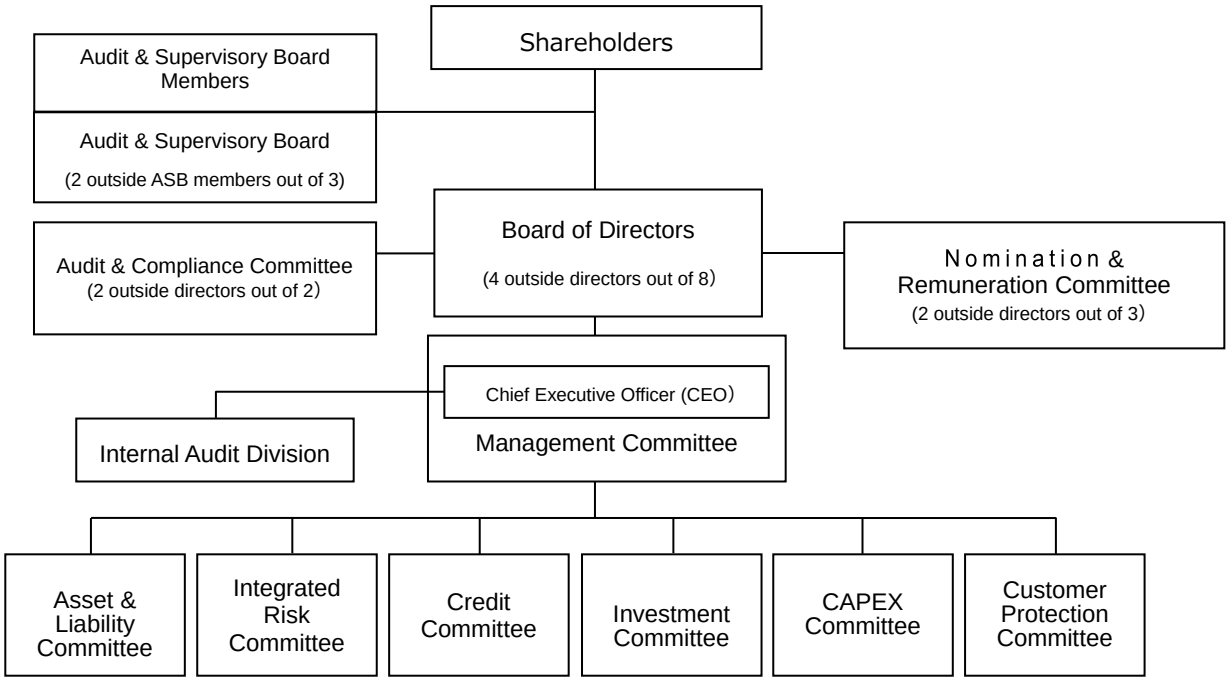
4. Be able to engage directors and management in discussion and provide advice to divisions throughout the Bank from an independent and professional standpoint;

5. Be able to conduct efficient and effective three-party auditing* by communicating with the Audit & Supervisory Board and its members and collaborating with the Internal Audit Division.

It is the policy of the Audit & Supervisory Board to dismiss or not reappoint an auditor in cases where the Board judges that there are reasons for dismissal pursuant to Article 340 Paragraph 1 of the Companies Act, or the Board makes a comprehensive judgment that the accounting auditor is otherwise unable to properly execute the necessary duties.

(*) Audit performed by three parties whereby accounting auditors collaborate with the Audit & Supervisory Board (members) and Internal Audit Division.

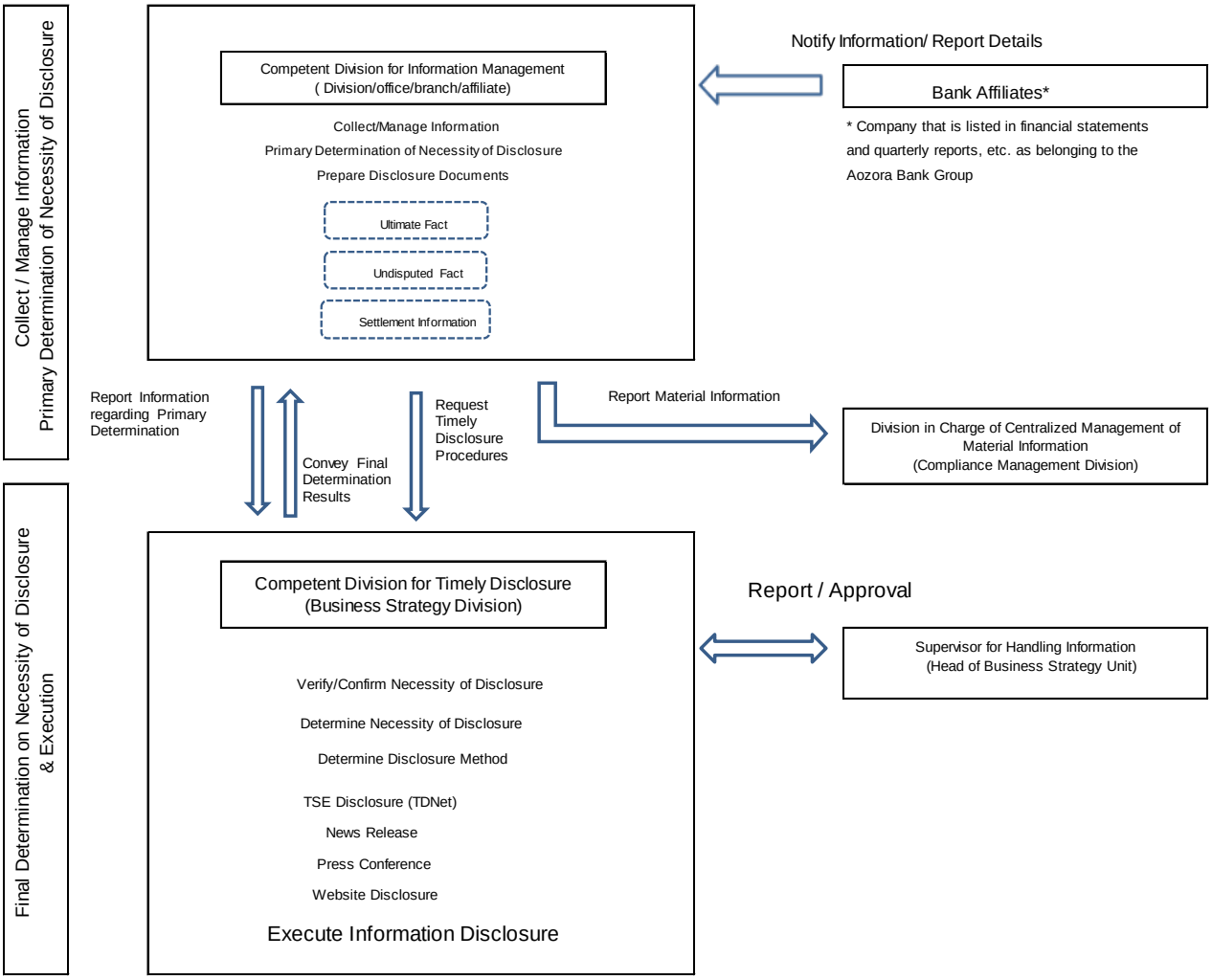
Aozora's Corporate Governance Framework



Name of committee	Chaired by	Members	Frequency	Purpose
Board of Directors	Chairman or President	Directors, Audit & Supervisory Board Members	Quarterly, as necessary	Determine management policy, supervise duties of directors and executive officers
Audit & Supervisory Board	Standing Audit & Supervisory Board Member	Audit & Supervisory Board Members	Monthly	Report, discuss and approve important audit matters
Nomination & Remuneration Committee	Outside Director	Directors (outside directors comprise majority)	As necessary	Recommend candidates for director, Audit & Supervisory Board member, and other important roles to the Board of Directors Determine remuneration for directors and important officers, and make recommendations regarding remuneration for Audit & Supervisory Board members
Audit & Compliance Committee	Outside Director	Outside Directors	As necessary	Supervise and review internal and external audits, risk management, compliance, credit audits, and financial reporting processes
Management Committee	President or Deputy President	Executive Officers appointed by the Board of Directors	Weekly	Determine important matters related to daily business operations

(As of July 1, 2017)

Outline of Aozora Bank's Timely Disclosure Framework



(As of July 1, 2017)